

# Office of the Legislative Auditor

State of Montana



Report to the Legislature

February 1990

## Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 1989

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## Board of Regents and the Commissioner of Higher Education

This report contains two recommendations for improvement of CHE's operations. These recommendations address:

- ▶ Compliance with federal laws and regulations governing the board's responsibilities for monitoring subrecipients' use of federal funds.
- ▶ Compliance with state law limiting nonresident fee waivers.

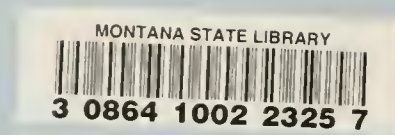
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## FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Office of the Legislative Auditor to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations which could have a significant financial impact. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

The Single Audit Act of 1984 and OMB Circular A-128 require the auditor to issue certain financial, internal control, and compliance reports regarding the state's federal financial assistance programs, including all findings of noncompliance and questioned costs. This individual agency audit report is not intended to comply with the Single Audit Act of 1984 or OMB Circular A-128 and is therefore not intended for distribution to federal grantor agencies. The Office of the Legislative Auditor issues a statewide biennial Single Audit Report which complies with the reporting requirements listed above. The Single Audit Report for the two fiscal years ended June 30, 1987 has been issued. Copies of the Single Audit Report can be obtained by contacting:

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# Office of the Legislative Auditor

STATE CAPITOL  
HELENA, MONTANA 59620  
406/444-3122



LEGISLATIVE AUDITOR:  
SCOTT A. SEACAT

LEGAL COUNSEL:  
JOHN W. NORTHEY

February 1990

DEPUTY LEGISLATIVE AUDITORS:

MARY BRYSON  
Operations and EDP Audit

JAMES GILLET  
Financial-Compliance Audit

JIM PELLEGRINI  
Performance Audit


The Legislative Audit Committee  
of the Montana State Legislature:

This is our financial-compliance audit report on the Commissioner of Higher Education Office (CHE) and the Board of Regents of Higher Education for the two fiscal years ended June 30, 1989. Included in this report are two recommendations. These recommendations address compliance with federal laws and regulations concerning monitoring of the subrecipients of the Carl D. Perkins funds, and compliance with state law limiting nonresident fee waivers. CHE's written response to audit recommendations is included at the back of the audit report.

We thank the commissioner and his staff for their assistance and cooperation.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "Scott A. Seacat", with a long, sweeping horizontal line extending to the right.  
Scott A. Seacat  
Legislative Auditor



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# **Office of the Legislative Auditor**

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**Financial-Compliance Audit**

**For the Two Fiscal Years Ended June 30, 1989**

## **Board of Regents and Commissioner of Higher Education**

Audit staff involved in this audit included: Susan Fleming, Boyd Gackle, Lorry Parriman, and Cindy Susott.



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## Appointed and Administrative Officials

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|   |  | <u>Term<br/>Expires</u> |
|---|--|-------------------------|
| <b>Board of Regents of<br/>Higher Education</b> | Stan Stephens, Governor*                               | 1992                    |
|   | Nancy Keenan, Superintendent<br>of Public Instruction* | 1992                    |
|   | William L. Mathers,<br>Chairman                        | Miles City<br>1994      |
|   | Elsie Redlin,<br>Vice Chairman                         | Lambert<br>1991         |
|   | Dennis E. Lind   | Missoula<br>1996        |
|   | Tom Topel  | Billings<br>1993        |
|   | Jim Kaze   | Havre<br>1992           |
|   | Beatrice McCarthy                                      | Anaconda<br>1990        |
|   | Vickie Rae Clouse,<br>Student Representative           | Havre<br>1990           |

\*Ex officio member

|                                 |                    |  |
|---------------------------------|--------------------|--|
| <b>Administrative Officials</b> | Carrol Krause      | Commissioner of Higher<br>Education                      |
|                                 | John H. Noble, Jr. | Deputy Commissioner for<br>Management and Fiscal Affairs |



## Summary of Recommendations

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The listing below serves as a means of summarizing the recommendations contained in the report, the agency's response thereto, and a reference to the supporting comments.

### Recommendation #1

We recommend CHE:

- A. Establish procedures to ensure deficiencies noted during its program reviews are corrected.
- B. Establish a system to monitor Carl D. Perkins subrecipients for compliance with federal audit requirements. . . . . 6

Agency Response: Concur. See page 34.

### Recommendation #2

We recommend the board change its policy on nonresident fee waivers to comply with state law. . . . . 7

Agency Response: Do not concur. See page 35.



# Introduction

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## Introduction

We performed a financial-compliance audit of the Commissioner of Higher Education (CHE) and the Board of Regents of Higher Education (board) for the two fiscal years ended June 30, 1989. The objectives of our audit were to:

- 1) Determine compliance with applicable state and federal laws and regulations.
- 2) Provide recommendations for improving management and internal controls of CHE.
- 3) Determine if the CHE's and the board's financial schedules are fairly presented for the two fiscal years ended June 30, 1989.
- 4) Determine the implementation status of prior audit recommendations.

This report contains two recommendations to the board. These recommendations address areas where compliance with laws and regulations can be improved. Other areas of concern deemed not to have significant effect on the successful operations of CHE are not specifically included in the report, but have been discussed with management.

In accordance with section 5-13-307, MCA, we analyzed and disclosed the cost, if significant, of implementing the recommendations made in this report.

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## Background

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### Board of Regents of Higher Education

Article X of the Montana Constitution established the board to govern and control the Montana University System. The board is also vested with the general supervision of community colleges. Effective July 1, 1987, the board was given general administrative and supervisory control over the vocational-technical centers. The board consists of seven members appointed by the Governor and confirmed by the Senate. The Governor and State Superintendent of Public Instruction are ex officio members of the board.

## Introduction

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### Commissioner of Higher Education

Article X of the Montana Constitution requires the board to appoint a Commissioner of Higher Education and prescribe the term and duties of the commissioner. The commissioner is responsible for overall supervision and coordination of units of the university system. This includes academic planning and curriculum review, budgetary planning and control, legal services, and labor negotiation policies and procedures. CHE was authorized 33.85 FTE for both fiscal years 1987-88 and 1988-89.

The commissioner also administers student assistance programs and federally funded programs. Student assistance programs include the Washington, Alaska, Montana, Idaho (WAMI) cooperative medical program, the Western Interstate Commission for Higher Education (WICHE), State Student Incentive Grants (SSIG), and the Montana Guaranteed Student Loan Program (GSL). The Montana Guaranteed Student Loan Program, established by the 1979 Montana Legislature, allows eligible students to receive guaranteed loans from lender institutions. Federal programs administered by CHE also include the Carl D. Perkins Vocational Education grants, State Student Incentive Grant, and grants for Talent Search and Education for Economic Security.

The Montana Higher Education Student Assistance Corporation sells tax-exempt bonds to allow the lender institutions to sell their loans to a secondary market. We have issued separate, unqualified opinions on fiscal years 1987-88 and 1988-89 Montana Guaranteed Student Loan financial statements which were prepared to assist in selling the bonds. The GSL program initially contracted with United Student Aid Funds to service loans. In the fall of 1987 the Board of Regents approved a plan to bring the loan servicing to Montana. The Montana Guaranteed Student Loan program began the phase-in process in April 1988 and expects the process to be complete by March 1990.

# Prior Audit Recommendations

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## **Prior Audit Recommendations**

Our prior audit report for CHE and the board was issued for the two fiscal years ended June 30, 1987. Of the four recommendations still applicable to CHE's operations, all four were implemented.

# Findings and Recommendations

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## Federal Compliance

We tested compliance with federal laws for federal assistance programs administered by the office. We designed our procedures to satisfy the requirements of the Single Audit Act of 1984 and Office of Management and Budget (OMB) Circular A-128 as applied to the state of Montana's reporting entity. We specifically tested compliance and expenditure allowability for grants funded by the U.S. Department of Education for the Title II - Basic State Grants for Vocational Education (Carl D. Perkins) and the Montana Guaranteed Student Loan program (GSL). The following section discusses a concern related to the Carl D. Perkins funds.

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## Subrecipient Monitoring

In fiscal year 1987-88, the Board of Regents became the state recipient of funds from the Carl D. Perkins Federal Vocational Act (Basic Grants to States, Catalog of Federal Domestic Assistance (CFDA) #84.048; Consumer and Homemaking Education, CFDA #84.049; Community Based Organizations, CFDA #84.174) under section 20-16-102, MCA. The board administers post-secondary level projects and contracts with the Office of Public Instruction (OPI) to administer secondary level projects for vocational education. CHE expended approximately \$3 million and \$5.4 million under the Carl D. Perkins Federal Vocational Act in fiscal years 1987-88 and 1988-89, respectively. These amounts include transfers to OPI of \$867,363 and \$2,884,346 for each fiscal year, respectively.

For post-secondary vocational education projects, CHE distributes Carl D. Perkins funds to vocational-technical centers, school districts, local governments, and community-based programs. For secondary vocational education projects, CHE transfers funds to OPI, which distributes them to eligible subrecipients.

CHE performs desk reviews on cost reports and supporting documentation submitted quarterly by subrecipients. In addition, they perform federally required program reviews of 20 percent of sponsored projects each year. We noted that



## **Findings and Recommendations**

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CHE's follow up on deficiencies found during one program review consisted of sending a letter to the subrecipient outlining problems noted during the review. Subsequent correspondence from the subrecipient indicated that all recommendations were implemented. We later found that the problems were not resolved.

We also found CHE does not have procedures to adequately monitor subrecipients' compliance with federal audit requirements. The Office of Management and Budget (OMB) Circular A-128 requires state governments which receive federal financial assistance and provide \$25,000 or more of it in a fiscal year to a single subrecipient (which CHE did during the audit period) to determine whether subrecipients have met the federal audit requirements. Since federal requirements effectively place responsibility for the subrecipients' compliance with federal laws with the primary recipient, CHE should have a system for ensuring it is aware of problems at the subrecipient level. CHE should also have procedures for resolving any problems noted on the subrecipient level within six months as required by federal regulations.

CHE should require each subrecipient of \$25,000 or more each year to obtain an annual audit in accordance with federal audit requirements and submit the audit reports to CHE for review. CHE should also ensure OPI and its subrecipients comply with these requirements. The contract between CHE and OPI should outline responsibility for monitoring of the subrecipients and compliance with audit requirements.

## Findings and Recommendations

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### Recommendation #1

**We recommend CHE:**

- A. Establish procedures to ensure deficiencies noted during its program reviews are corrected.**
- B. Establish a system to monitor Carl D. Perkins subrecipients for compliance with federal audit requirements.**

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### **Nonresident Fee Waivers**

During our audit, we noted board policy allows university units to grant more nonresident student fee waivers than allowed by state law. Section 20-25-421, MCA, limits total nonresident fee waivers at any unit of the university system to 2 percent of the previous year's full-time equivalent (FTE) enrollment. Board policy permits each unit of the Montana University System to grant student out-of-state fee waivers for undergraduates in an amount not to exceed 2 percent of the previous year's fall quarter FTE. An equal amount may be waived for nonresident graduate students. Board policy therefore limits the waivers to 4 percent of the previous year's FTE, which exceeds the 2 percent limit established by state law.

We tested one university unit and found it granted excess nonresident fee waivers of \$41,513 in fiscal year 1985-86 and \$24,818 in fiscal year 1988-89 by following the board's policy instead of complying with state law. Total actual non-resident fee waivers granted in these fiscal years for this unit were \$389,625 and \$344,441, respectfully.

A CHE official agreed the board's policy on the waivers does conflict with state law, but he stated the board has constitutional power to determine university system rules and is not subject to limits of state laws. Section 20-25-301, MCA, states the board shall provide, "not inconsistent with the laws of the state," rules for governing the university system. Legislative intent limits

## **Findings and Recommendations**

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the nonresident fee waivers at university units and bases operating budgets on anticipated fee collections. Allowing excessive waivers causes the state to use general fund moneys to support operations meant to be funded by the collection from out-of-state students.

### **Recommendation #2**

**We recommend the board change its policy on nonresident fee waivers to comply with state law.**



**Independent Auditor's Report  
& Financial Schedules of the  
Commissioner of Higher Education**

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# Summary of Independent Auditor's Report

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## Summary of Independent Auditor's Report (CHE)

The auditor's opinion issued on the financial schedules contained in this report is intended to convey to the reader the degree of reliance that can be placed on the amounts presented. The reader may rely on the fairness of the amounts on the schedules presented on pages 12 through 20 when analyzing the financial activity of the Commissioner of Higher Education.

## Office of the Legislative Auditor

STATE CAPITOL  
HELENA, MONTANA 59620  
406/444-3122



LEGISLATIVE AUDITOR:  
SCOTT A. SEACAT

LEGAL COUNSEL:  
JOHN W. NORTHEY

INDEPENDENT AUDITOR'S REPORT

## DEPUTY LEGISLATIVE AUDITORS:

MARY BRYSON  
Operations and EDP Audit

JAMES GILLETT  
Financial-Compliance Audit

JIM PELLEGRINI  
Performance Audit

The Legislative Audit Committee  
of the Montana State Legislature:

We have audited the financial schedules of the Commissioner of Higher Education (CHE) for each of the two fiscal years ended June 30, 1988 and 1989, as shown on pages 12 through 20. These financial schedules are the responsibility of CHE's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1 to the financial schedules, CHE's financial schedules are prepared in accordance with state accounting policy and are not intended to be a presentation in conformity with generally accepted accounting principles.

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances of the Commissioner of Higher Education for each of the two fiscal years ended June 30, 1988 and 1989 in conformity with the basis of accounting described in Note 1.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "James Gillett".

James Gillett, CPA  
Deputy Legislative Auditor

November 9, 1989





COMMISSIONER OF HIGHER EDUCATION  
SCHEDULE OF CHANGES IN FUND BALANCES  
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1989

|  | <u>General Fund</u>         | <u>Special<br/>Revenue<br/>Funds</u> | <u>Enterprise<br/>Fund</u>  |
|--|-----------------------------|--------------------------------------|-----------------------------|
| FUND BALANCE: July 1, 1987                       | \$ <u>-0-</u>               | \$ <u>(445,281)</u> <sup>1</sup>     | \$ <u>3,587,519</u>         |
| <b>ADDITIONS</b>                                 |                             |                                      |                             |
| <u>Fiscal Year 1987-88</u>                       |                             |                                      |                             |
| Support From State of Montana                    | 96,694,930                  |                                      |                             |
| Budgeted Revenue & Transfers In                  |                             | 6,219,221                            | 7,770,517                   |
| Cash Transfers In                                |                             | 13,715,966                           |                             |
| Prior Year Revenue Adjustments                   | <u>                    </u> | <u>103,351</u>                       | <u>982</u>                  |
| <br><u>Fiscal Year 1988-89</u>                   |                             |                                      |                             |
| Support From State of Montana                    | 96,275,674                  |                                      |                             |
| Budgeted Revenue & Transfers In                  |                             | 8,328,213                            | 8,207,478                   |
| Cash Transfers In                                |                             | 13,761,726                           |                             |
| Prior Year Revenue Adjustments                   |                             | (24,813)                             |                             |
| Prior Year Transfers In Adjustments              | <u>                    </u> | <u>(9,902)</u>                       | <u>                    </u> |
| <br>Total Additions                              | <u>192,970,604</u>          | <u>42,093,762</u>                    | <u>15,978,977</u>           |
| <br><b>REDUCTIONS</b>                            |                             |                                      |                             |
| <u>Fiscal Year 1987-88</u>                       |                             |                                      |                             |
| Budgeted Expenditures & Transfers Out            | 96,807,139                  | 19,368,182                           | 8,022,471                   |
| Prior Year Expenditure Adjustments               | (29,576)                    | 206,577                              | 3,394                       |
| Prior Year Transfers Out Adjustments             | (82,633)                    |                                      |                             |
| Direct Entries to Fund Balance                   |                             | 43,623                               |                             |
| Nonbudgeted Expenditures & Transfers Out         |                             |                                      | 138,080                     |
| Nonbudgeted Prior Year Expenditure<br>Adjustment | <u>                    </u> | <u>                    </u>          | <u>(18,352)</u>             |
| <br><u>Fiscal Year 1988-89</u>                   |                             |                                      |                             |
| Budgeted Expenditures & Transfers Out            | 96,934,279                  | 21,395,365                           | 8,851,508                   |
| Prior Year Expenditure Adjustments               | 788                         | (60,665)                             | 1,806                       |
| Prior Year Transfers Out Adjustments             | (659,393)                   | (1,311)                              |                             |
| Nonbudgeted Expenditures & Transfers Out         | <u>                    </u> | <u>                    </u>          | <u>291,591</u>              |
| <br>Total Reductions                             | <u>192,970,604</u>          | <u>40,951,771</u>                    | <u>17,290,498</u>           |
| <br>FUND BALANCE: June 30, 1989                  | \$ <u>-0-</u>               | \$ <u>696,710</u>                    | \$ <u>2,275,998</u>         |

<sup>1</sup> See footnote 8.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 16 through 20.



COMMISSIONER OF HIGHER EDUCATION  
 SCHEDULE OF BUDGETED REVENUE & TRANSFERS IN - ESTIMATE & ACTUAL  
 FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1989

|                                      | <u>Taxes</u>     | <u>Charges<br/>For<br/>Services</u> | <u>Investment<br/>Earnings</u> | <u>Federal<br/>Indirect<br/>Cost<br/>Recoveries</u> | <u>Grants,<br/>Contracts,<br/>Donations &amp;<br/>Abandonments</u> | <u>Other<br/>Financing<br/>Sources</u> | <u>Federal</u>       | <u>Contributions<br/>and Premiums</u> | <u>Total</u>         |
|--------------------------------------|------------------|-------------------------------------|--------------------------------|---|--|--|----------------------|---------------------------------------|----------------------|
| <u>Fiscal Year 1988-89</u>           |                  |                                     |                                |   |  |  |                      |                                       |                      |
| SPECIAL REVENUE FUND                 |                  |                                     |                                |   |  |  |                      |                                       |                      |
| Estimated Revenue                    | \$808,294        | \$675,000                           | \$300,000                      | \$10,324  | \$ 46,300  | \$ 215,848                             | \$ 7,176,148         |                                       | \$ 9,231,914         |
| Actual Revenue                       | <u>874,332</u>   | <u>613,773</u>                      | <u>225,317</u>                 | <u>12,098</u>                                       | <u>15,000</u>  | <u>171,921</u>                         | <u>6,415,772</u>     |                                       | <u>8,328,213</u>     |
| Collections Over<br>(Under) Estimate | <u>\$ 66,038</u> | <u>\$(61,227)</u>                   | <u>\$(74,683)</u>              | <u>\$ 1,774</u>                                     | <u>\$(31,300)</u>  | <u>\$ (43,927)</u>                     | <u>\$ (760,376)</u>  |                                       | <u>\$ (903,701)</u>  |
| ENTERPRISE FUND                      |                  |                                     |                                |   |  |  |                      |                                       |                      |
| Estimated Revenue                    |                  |                                     | \$310,000                      |   |  |  |                      | \$ 8,235,475                          | \$ 8,545,475         |
| Actual Revenue                       |                  |                                     | <u>363,156</u>                 |   |  |  |                      | <u>7,844,322</u>                      | <u>8,207,478</u>     |
| Collections Over<br>(Under) Estimate |                  |                                     | <u>\$ 53,156</u>               |   |  |  |                      | <u>\$ (391,153)</u>                   | <u>\$ (337,997)</u>  |
| <u>Fiscal Year 1987-88</u>           |                  |                                     |                                |   |  |  |                      |                                       |                      |
| SPECIAL REVENUE FUND                 |                  |                                     |                                |   |  |  |                      |                                       |                      |
| Estimated Revenue                    | \$800,291        | \$680,000                           | \$300,000                      | \$12,236  |  | \$1,149,757                            | \$ 5,238,277         |                                       | \$ 8,180,561         |
| Actual Revenue                       | <u>849,501</u>   | <u>653,360</u>                      | <u>244,887</u>                 | <u>11,394</u>                                       |  | <u>1,408,684</u>                       | <u>3,051,395</u>     |                                       | <u>6,219,221</u>     |
| Collections Over<br>(Under) Estimate | <u>\$ 49,210</u> | <u>\$(26,640)</u>                   | <u>\$(55,113)</u>              | <u>\$ (842)</u>                                     |  | <u>\$ 258,927</u>                      | <u>\$(2,186,882)</u> |                                       | <u>\$(1,961,340)</u> |
| ENTERPRISE FUND                      |                  |                                     |                                |   |  |  |                      |                                       |                      |
| Estimated Revenue                    |                  |                                     | \$300,000                      |   |  |  |                      | \$ 8,700,000                          | \$ 9,000,000         |
| Actual Revenue                       |                  |                                     | <u>308,360</u>                 |   |  |  |                      | <u>7,462,157</u>                      | <u>7,770,517</u>     |
| Collections Over<br>(Under) Estimate |                  |                                     | <u>\$ 8,360</u>                |   |  |  |                      | <u>\$(1,237,843)</u>                  | <u>\$(1,229,483)</u> |

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 16 through 20.



COMMISSIONER OF HIGHER EDUCATION  
SCHEDULE OF BUDGETED PROGRAM EXPENDITURES AND TRANSFERS OUT  
BY OBJECT AND FUND - BUDGET AND ACTUAL  
FOR THE FISCAL YEAR ENDED JUNE 30, 1989

|                                 | Administration | Student Assistance | Education For Economic Security Grant | Community College Assistance | Montana University System Group Insurance | Talent Search  | Vo-Tech Appropriation Distribution | Vo-Tech Administration | Appropriation Distribution | Guaranteed Student Loan Program | Total              |
|---------------------------------|----------------|--------------------|---------------------------------------|------------------------------|---|----------------|------------------------------------|------------------------|----------------------------|---------------------------------|--------------------|
| PERSONAL SERVICES               |                |                    |                                       |                              |   |                |                                    |                        |                            |                                 |                    |
| Salaries                        | \$ 432,675     |                    |                                       |                              | \$ 51,838                                 | \$121,913      |                                    | \$ 153,352             |                            | \$ 225,176                      | \$ 984,954         |
| Other Compensation              | 1,250          |                    |                                       |                              |   |                |                                    |                        |                            |                                 | 1,250              |
| Employee Benefits               | 80,192         |                    |                                       |                              | 11,165                                    | 27,368         |                                    | 29,843                 |                            | 49,356                          | 197,924            |
| Total                           | <u>514,117</u> |                    |                                       |                              | <u>63,003</u>                             | <u>149,281</u> |                                    | <u>183,195</u>         |                            | <u>274,532</u>                  | <u>1,184,128</u>   |
| OPERATING EXPENSES              |                |                    |                                       |                              |   |                |                                    |                        |                            |                                 |                    |
| Contracted Services             | 62,616         |                    | \$ 688                                |                              | 86,752                                    | 2,083          |                                    | 10,348                 |                            | 723,385                         | 885,872            |
| Supplies & Materials            | 20,775         |                    |                                       |                              | 2,031                                     | 1,529          |                                    | 9,643                  |                            | 9,809                           | 43,787             |
| Communications                  | 25,247         |                    |                                       |                              | 3,823                                     | 8,540          |                                    | 10,642                 |                            | 35,982                          | 84,234             |
| Travel                          | 24,998         |                    |                                       |                              | 2,084                                     | 10,347         |                                    | 29,032                 |                            | 26,296                          | 92,757             |
| Rent                            | 83,740         |                    |                                       |                              | 142                                       | 1,853          |                                    | 1,958                  |                            | 34,989                          | 122,682            |
| Utilities                       | 12,354         |                    |                                       |                              |   | 198            |                                    |                        |                            | 4,085                           | 16,637             |
| Repair & Maintenance            | 11,698         |                    |                                       |                              |   |                |                                    | 36                     |                            | 18,847                          | 30,581             |
| Other Expenses                  | 16,188         |                    | 701                                   |                              | 257,231                                   | 16,335         |                                    | 6,064                  |                            | 4,863                           | 301,382            |
| Total                           | <u>257,616</u> |                    | <u>1,389</u>                          |                              | <u>352,063</u>                            | <u>40,885</u>  |                                    | <u>67,723</u>          |                            | <u>858,256</u>                  | <u>1,577,932</u>   |
| EQUIPMENT AND INTANGIBLE ASSETS |                |                    |                                       |                              |   |                |                                    |                        |                            |                                 |                    |
| Equipment                       | 7,168          |                    |                                       |                              | 2,972                                     | 250            |                                    | 6,946                  |                            | 62,853                          | 80,189             |
| Intangible Assets               |                |                    |                                       |                              |   |                |                                    |                        |                            | 8,296                           | 8,296              |
| Total                           | <u>7,168</u>   |                    |                                       |                              | <u>2,972</u>                              | <u>250</u>     |                                    | <u>6,946</u>           |                            | <u>71,149</u>                   | <u>88,485</u>      |
| LOCAL ASSISTANCE                |                |                    |                                       |                              |   |                |                                    |                        |                            |                                 |                    |
| From State Sources              |                | \$ 62,000          |                                       | \$ 3,041,798                 |   |                |                                    |                        |                            |                                 | 3,103,798          |
| Total                           |                | <u>62,000</u>      |                                       | <u>3,041,798</u>             |   |                |                                    |                        |                            |                                 | <u>3,103,798</u>   |
| GRANTS                          |                |                    |                                       |                              |   |                |                                    |                        |                            |                                 |                    |
| From State Sources              |                | 4,099,390          |                                       |                              |   |                |                                    | 5,244                  |                            |                                 | 4,104,634          |
| From Federal Sources            |                | 265,518            | 147,012                               |                              |   | \$ 767,409     |                                    | 1,613,522              |                            |                                 | 2,793,461          |
| Total                           |                | <u>4,364,908</u>   | <u>147,012</u>                        |                              |   | <u>767,409</u> |                                    | <u>1,618,766</u>       |                            |                                 | <u>6,898,095</u>   |
| BENEFITS & CLAIMS               |                |                    |                                       |                              |   |                |                                    |                        |                            |                                 |                    |
| To Individuals                  |                |                    |                                       |                              | 75,000                                    |                |                                    |                        |                            |                                 | 75,000             |
| Insurance Payments              |                |                    |                                       |                              | 8,358,470                                 |                |                                    |                        |                            |                                 | 8,358,470          |
| Total                           |                |                    |                                       |                              | <u>8,433,470</u>                          |                |                                    |                        |                            |                                 | <u>8,433,470</u>   |
| TRANSFERS                       |                |                    |                                       |                              |   |                |                                    |                        |                            |                                 |                    |
| Accounting Entity Transfers     |                |                    |                                       |                              |   |                | 5,921,124                          | 2,884,346              | \$ 97,089,774              |                                 | 105,895,244        |
| Total                           |                |                    |                                       |                              |   |                | <u>5,921,124</u>                   | <u>2,884,346</u>       | <u>97,089,774</u>          |                                 | <u>105,895,244</u> |
| TOTAL PROGRAM EXPENDITURES      | \$ 778,901     | \$ 4,426,908       | \$ 148,401                            | \$ 3,041,798                 | \$ 8,851,508                              | \$190,416      | \$ 6,688,533                       | \$ 4,760,976           | \$ 97,089,774              | \$ 1,203,937                    | \$127,181,152      |
| GENERAL FUND                    |                |                    |                                       |                              |   |                |                                    |                        |                            |                                 |                    |
| Budgeted                        | \$ 787,122     | \$ 3,996,510       |                                       | \$ 3,041,798                 |   |                | \$ 5,046,792                       | \$ 93,165              | \$ 84,063,774              |                                 | \$ 97,029,161      |
| Actual                          | 778,901        | 3,909,965          |                                       | 3,041,798                    |   |                | 5,046,792                          | 93,049                 | 84,063,774                 |                                 | 96,934,279         |
| Unspent Budget Authority        | \$ 8,221       | \$ 86,545          |                                       | \$ -0-                       |   |                | \$ -0-                             | \$ 116                 | \$ -0-                     |                                 | \$ 94,882          |
| SPECIAL REVENUE FUND            |                |                    |                                       |                              |   |                |                                    |                        |                            |                                 |                    |
| Budgeted                        |                | \$ 532,666         | \$ 161,561                            |                              |   | \$190,508      | \$ 1,681,805                       | \$ 5,256,754           | \$ 13,026,000              | \$ 1,416,493                    | \$ 22,265,787      |
| Actual                          |                | 516,943            | 148,401                               |                              |   | 190,416        | 1,641,741                          | 4,667,927              | 13,026,000                 | 1,203,937                       | 21,395,365         |
| Unspent Budget Authority        |                | \$ 15,723          | \$ 13,160                             |                              |   | \$ 92          | \$ 40,064                          | \$ 588,827             | \$ -0-                     | \$ 212,556                      | \$ 870,422         |
| ENTERPRISE FUND                 |                |                    |                                       |                              |   |                |                                    |                        |                            |                                 |                    |
| Budgeted                        |                |                    |                                       |                              | \$ 9,205,338                              |                |                                    |                        |                            |                                 | \$ 9,205,338       |
| Actual                          |                |                    |                                       |                              | 8,851,508                                 |                |                                    |                        |                            |                                 | 8,851,508          |
| Unspent Budget Authority        |                |                    |                                       |                              | <u>353,830</u>                            |                |                                    |                        |                            |                                 | <u>353,830</u>     |

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 16 through 20.



COMMISSIONER OF HIGHER EDUCATION  
SCHEDULE OF BUDGETED PROGRAM EXPENDITURES AND TRANSFERS OUT  
BY OBJECT AND FUND - BUDGET AND ACTUAL  
FOR THE FISCAL YEAR ENDED JUNE 30, 1988

|                                 | Administration   | Student Assistance | Education For Economy Security Grant | Community College Assistance | Montana University System Group Insurance | Talent Search    | Vo-Tech Appropriation Distribution | Vo-Tech Administration | Appropriation Distribution | Guaranteed Student Loan Program | Total                |
|---------------------------------|------------------|--------------------|--------------------------------------|------------------------------|---|------------------|------------------------------------|------------------------|----------------------------|---------------------------------|----------------------|
| PERSONAL SERVICES               |                  |                    |                                      |                              |   |                  |                                    |                        |                            |                                 |                      |
| Salaries                        | \$430,963        |                    |                                      |                              | \$ 53,023                                 | \$105,219        |                                    | \$ 119,668             |                            | \$ 139,918                      | \$ 848,791           |
| Hourly Wages                    |                  |                    |                                      |                              |   |                  |                                    |                        |                            | 27                              | 27                   |
| Other Compensation              | 750              |                    |                                      |                              |   |                  |                                    |                        |                            |                                 | 750                  |
| Employee Benefits               | <u>78,372</u>    |                    |                                      |                              | <u>11,142</u>                             | <u>25,149</u>    |                                    | <u>24,500</u>          |                            | <u>29,035</u>                   | <u>168,198</u>       |
| Total                           | <u>510,085</u>   |                    |                                      |                              | <u>64,165</u>                             | <u>130,368</u>   |                                    | <u>144,168</u>         |                            | <u>168,980</u>                  | <u>1,017,766</u>     |
| OPERATING EXPENSES              |                  |                    |                                      |                              |   |                  |                                    |                        |                            |                                 |                      |
| Contracted Services             | 58,645           |                    | \$ 100                               |                              | 79,262                                    | 1,426            |                                    | 1,214                  |                            | 726,043                         | 866,690              |
| Supplies & Materials            | 19,340           |                    |                                      |                              | 1,387                                     | 3,420            |                                    | 721                    |                            | 5,705                           | 30,573               |
| Communications                  | 24,928           |                    |                                      |                              | 2,137                                     | 7,528            |                                    | 5,181                  |                            | 24,208                          | 63,982               |
| Travel                          | 31,022           |                    | 76                                   |                              | 2,865                                     | 10,435           |                                    | 11,618                 |                            | 18,945                          | 74,961               |
| Rent                            | 86,406           |                    |                                      |                              |   | 3,027            |                                    | 326                    |                            | 23,523                          | 113,282              |
| Utilities                       | 9,344            |                    |                                      |                              |   | 275              |                                    |                        |                            | 240                             | 9,859                |
| Repair & Maintenance            | 13,424           |                    |                                      |                              | 1,558                                     | 49               |                                    |                        |                            | 7,863                           | 22,894               |
| Other Expenses                  | <u>17,202</u>    |                    |                                      |                              | <u>251,590</u>                            | <u>12,576</u>    |                                    | <u>6,449</u>           |                            | <u>99,022</u>                   | <u>386,839</u>       |
| Total                           | <u>260,311</u>   |                    | <u>176</u>                           |                              | <u>338,799</u>                            | <u>38,736</u>    |                                    | <u>25,509</u>          |                            | <u>905,549</u>                  | <u>1,569,080</u>     |
| EQUIPMENT AND INTANGIBLE ASSETS |                  |                    |                                      |                              |   |                  |                                    |                        |                            |                                 |                      |
| Equipment                       | 6,145            |                    |                                      |                              | 1,174                                     |                  |                                    | 8,124                  |                            | 46,351                          | 61,794               |
| Intangible Assets               | <u>348</u>       |                    |                                      |                              |   |                  |                                    | <u>737</u>             |                            | <u>8,562</u>                    | <u>9,647</u>         |
| Total                           | <u>6,493</u>     |                    |                                      |                              | <u>1,174</u>                              |                  |                                    | <u>8,861</u>           |                            | <u>54,913</u>                   | <u>71,441</u>        |
| LOCAL ASSISTANCE                |                  |                    |                                      |                              |   |                  |                                    |                        |                            |                                 |                      |
| From State Sources              |                  | \$ 59,000          |                                      | \$3,046,742                  |   |                  |                                    |                        |                            |                                 | 3,105,742            |
| Total                           |                  | <u>59,000</u>      |                                      | <u>3,046,742</u>             |   |                  |                                    |                        |                            |                                 | <u>3,105,742</u>     |
| GRANTS                          |                  |                    |                                      |                              |   |                  |                                    |                        |                            |                                 |                      |
| From State Sources              |                  | 4,289,420          |                                      |                              |   |                  |                                    |                        |                            |                                 | 4,289,420            |
| From Federal Sources            |                  | <u>260,873</u>     | <u>115,423</u>                       |                              |   |                  |                                    | <u>1,291,498</u>       |                            |                                 | <u>1,667,794</u>     |
| Total                           |                  | <u>4,550,293</u>   | <u>115,423</u>                       |                              |   |                  |                                    | <u>1,291,498</u>       |                            |                                 | <u>5,957,214</u>     |
| BENEFITS & CLAIMS               |                  |                    |                                      |                              |   |                  |                                    |                        |                            |                                 |                      |
| Insurance Payments              |                  |                    |                                      |                              | <u>7,618,333</u>                          |                  |                                    |                        |                            |                                 | <u>7,618,333</u>     |
| Total                           |                  |                    |                                      |                              | <u>7,618,333</u>                          |                  |                                    |                        |                            |                                 | <u>7,618,333</u>     |
| TRANSFERS                       |                  |                    |                                      |                              |   |                  |                                    |                        |                            |                                 |                      |
| Accounting Entity Transfers     |                  |                    |                                      |                              |   |                  | \$6,816,103                        | <u>867,363</u>         | <u>\$97,174,750</u>        |                                 | <u>104,858,216</u>   |
| Total                           |                  |                    |                                      |                              |   |                  | <u>6,816,103</u>                   | <u>867,363</u>         | <u>97,174,750</u>          |                                 | <u>104,858,216</u>   |
| TOTAL PROGRAM EXPENDITURES      | <u>\$776,889</u> | <u>\$4,609,293</u> | <u>\$115,599</u>                     | <u>\$3,046,742</u>           | <u>\$8,022,471</u>                        | <u>\$169,104</u> | <u>\$6,816,103</u>                 | <u>\$2,337,399</u>     | <u>\$97,174,750</u>        | <u>\$ 1,129,442</u>             | <u>\$124,197,792</u> |
| GENERAL FUND                    |                  |                    |                                      |                              |   |                  |                                    |                        |                            |                                 |                      |
| Budgeted                        | \$802,138        | \$3,726,938        |                                      | \$3,051,014                  |   |                  | \$5,010,031                        | \$ 82,319              | \$84,231,892               |                                 | \$ 96,904,332        |
| Actual                          | <u>776,889</u>   | <u>3,671,125</u>   |                                      | <u>3,046,742</u>             |   |                  | <u>5,010,031</u>                   | <u>70,460</u>          | <u>84,231,892</u>          |                                 | <u>96,807,139</u>    |
| Unspent Budget Authority        | <u>\$ 25,249</u> | <u>\$ 55,813</u>   |                                      | <u>\$ 4,272</u>              |   |                  | <u>\$ 0</u>                        | <u>\$ 11,859</u>       | <u>\$ 0</u>                |                                 | <u>\$ 97,193</u>     |
| SPECIAL REVENUE FUND            |                  |                    |                                      |                              |   |                  |                                    |                        |                            |                                 |                      |
| Budgeted                        |                  | \$ 943,164         | \$126,890                            |                              |   | \$174,354        | \$1,813,413                        | \$2,478,319            | \$12,956,200               | \$ 1,179,168                    | \$ 19,671,508        |
| Actual                          |                  | <u>938,168</u>     | <u>115,599</u>                       |                              |   | <u>169,104</u>   | <u>1,806,072</u>                   | <u>2,266,939</u>       | <u>12,942,858</u>          | <u>1,129,442</u>                | <u>19,368,182</u>    |
| Unspent Budget Authority        |                  | <u>\$ 4,996</u>    | <u>\$ 11,291</u>                     |                              |   | <u>\$ 5,250</u>  | <u>\$ 7,341</u>                    | <u>\$ 211,380</u>      | <u>\$ 13,342</u>           | <u>\$ 49,726</u>                | <u>\$ 303,326</u>    |
| ENTERPRISE FUND                 |                  |                    |                                      |                              |   |                  |                                    |                        |                            |                                 |                      |
| Budgeted                        |                  |                    |                                      |                              | \$8,739,609                               |                  |                                    |                        |                            |                                 | \$ 8,739,609         |
| Actual                          |                  |                    |                                      |                              | <u>8,022,471</u>                          |                  |                                    |                        |                            |                                 | <u>8,022,471</u>     |
| Unspent Budget Authority        |                  |                    |                                      |                              | <u>\$ 717,138</u>                         |                  |                                    |                        |                            |                                 | <u>\$ 717,138</u>    |

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 16 through 20.







COMMISSIONER OF HIGHER EDUCATION  
NOTES TO THE FINANCIAL SCHEDULES  
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1989

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

CHE uses the modified accrual basis of accounting which is described in the Montana Operations Manual, for its governmental funds. In applying the modified accrual basis, revenues are recorded when they are received in cash, unless susceptible to accrual. Revenues susceptible to accrual are recorded as receivables when they are measurable and available to pay current period liabilities. Intergovernmental revenues received as reimbursements are recognized based upon the expenditures recorded. Intergovernmental revenues received but not earned are recorded as deferred revenues or liabilities to the respective governments.

Under the modified accrual basis of accounting, expenditures are recorded for valid obligations. A valid obligation exists when the related liability is incurred. The following items are also considered valid obligations under state accounting policy.

- If the appropriation provided funds to complete a given project, the entire amount of a service contract may be accrued even though the services are rendered in a fiscal year subsequent to the fiscal year in which the expenditure is accrued.
- Goods ordered, but not received as of the fiscal year-end, may be accrued if the purchase order was issued prior to fiscal year-end.
- Obligations for employees' vested annual leave and sick leave are recorded as expenditures when paid.

The accrual basis of accounting is used for the Enterprise Fund. Revenues are recognized in the accounting period in which they are earned and become measurable; expenses are recognized when a valid obligation, as defined above, is incurred, if measurable.

B. Basis of Presentation

The financial schedules were prepared from the Statewide Budgeting and Accounting System (SBAS) without adjustments. Accounts are organized on the basis of funds according to state law. The following fund types are used by CHE:

General - to account for all financial resources except those required to be accounted for in another fund. This includes funds appropriated for general operations of CHE and distribution to the six university units, the five vocational-technical centers, and three community colleges for their general operations.

Special Revenue - to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. Legislative appropriations are required to spend from this fund type. The majority of this activity includes mill levy distributions to the six university units and five vocational-technical center's and the activities of the Guaranteed Student Loan and other federal programs.

Enterprise Fund - to account for operations (a) that are financed and operated in a manner similar to private business enterprises -- where the intent of the governing body is that, on a continuing basis, the enterprise be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The Enterprise Fund at CHE is used to account for operations of the Montana University System's insurance program.

## 2. ANNUAL AND SICK LEAVE

Employees at CHE accumulate both annual and sick leave. Employees are paid for 100 percent of unused annual and 25 percent of unused sick leave credits upon termination. Accumulated unpaid liabilities for annual and sick leave are not reflected in the financial schedules of CHE. Expenditures for termination pay currently are absorbed in the annual operational costs of CHE. At June 30, 1989, CHE had a liability of \$85,645 for annual leave and \$43,438 for sick leave.

## 3. PENSION PLAN

Employees of CHE are covered by the Montana Public Employees' Retirement System (PERS) and Teachers' Retirement System (TRS). CHE's contributions for the two plans were \$57,660 in fiscal year 1987-88 and \$65,930 in fiscal year 1988-89.

## 4. GENERAL FUND BALANCE

The General Fund is a statewide fund. Agencies do not have a separate General Fund since their only authority is to pay obligations from the statewide General Fund within their appropriation limits. Thus, on an agency schedule, the beginning and ending fund balance will always be zero for the General Fund.

## 5. TRANSFERS IN AND OUT

Sections 15-10-106, 20-16-202, and 20-25-423, MCA, levy property tax mills to support, maintain and improve the Montana University System. The counties collect the tax and remit it to the State Treasurer. CHE subsequently distributes these moneys to the six universities and five vocational-technical centers for general operations. CHE accounts for this activity in the Special Revenue Fund as a cash transfer in and a budgeted transfer out.

Special Revenue Fund transfers also include Carl D. Perkins activity as described in Note 6 below. As of fiscal year 1988-89, CHE records funds received from the federal grantor as revenues and funds sent to OPI for secondary projects as expenditures. Prior to that year OPI recorded revenues and expenditures; CHE treated the activity as transfers in and out.

House Bill 2, Laws of 1987, appropriated General Fund moneys to CHE for distribution to the six units of the university system, three community colleges and five vocational-technical schools. CHE accounts for this activity in the General Fund as support from State of Montana and budgeted transfers out to universities and vocational-technical centers and local assistance expenditures to community colleges.

## 6. CARL D. PERKINS FEDERAL FUNDS

The Board of Regents of Higher Education was designated by the state legislature as sole state recipient of funds under the Carl D. Perkins Vocational Education Act (CFDA #84.048, #84.049, and #84.174) beginning in fiscal year 1987-88. The Office of Public Instruction (OPI) previously administered the program. The board contracts with OPI to provide management of all Perkins grants to subrecipients providing services to secondary school and adult vocational education students. CHE transferred \$867,363 to OPI in fiscal year 1987-88 to fund secondary and adult education projects awarded by OPI before the board became sole state recipient. CHE recorded a transfer in from OPI for \$900,511 in that year to fund post-secondary projects administered by CHE but previously managed by OPI.

## 7. VOCATIONAL-TECHNICAL CENTERS

The 50th Legislative Session transferred the governance of the vocational-technical centers from the Office of Public Instruction (OPI) to the Board of

Regents. The board and CHE had general administrative and supervisory control over the vocational-technical centers beginning in fiscal year 1987-88.

#### 8. SPECIAL REVENUE FUND BALANCE

At July 1, 1987, the Special Revenue Fund had a negative fund balance of \$445,281. This represents a \$1.7 million negative balance in the university millage account offset with a \$1.3 million balance in the GSL account. The negative balance occurred due to timing of receipts from the Department of Revenue.

At June 30, 1989, the Special Revenue Fund balance was \$696,710. The negative balance of \$1.2 million in the university millage account was offset by approximately \$500,000 in the education trust fund interest account and \$1.4 million in the GSL account. The negative fund balance occurred as a result of an inter-entity loan from the general fund to cover the revenue accrued and distributed to the universities but where the corresponding receivable had not been collected.

#### 9. LITIGATION

The Montana Guaranteed Student Loan (GSL) program received \$734,173 during the first six years of its operation from the United States Department of Education to assist the program in its start-up stages. These funds were restricted in their use and could be recalled by the federal government if the reserve maintained by the program exceeded certain requirements. At the end of February 1988, GSL returned \$493,830 of the original advance to the U.S. Department of Education and the final \$240,343 was returned during November 1988. The Department of Education also notified GSL that the program must reduce its reserves by an additional \$968,058. GSL joined four other states in filing suit in federal district court in Denver to have this action declared unconstitutional.

This suit is one of almost a dozen such suits going on in various federal courts around the country. So far decisions have been rendered in seven of those cases. In three of them the student loan agencies have prevailed and in four other cases the federal government has prevailed. Some, or all, of these decisions have been appealed to the circuit court level but no decisions have yet been rendered there.

The Department of Education withheld payments September 1988 through November 1988 in order to satisfy their spenddown requirements of \$968,058 from Montana's Guaranteed Student Loan Program. Should the Department of

Education (D.E.) prevail, the Schedule of Changes in Fund Balances for the two fiscal years ended June 30, 1989 would be adversely affected as follows:

|                              | <u>Current<br/>Balance</u> | <u>Balance if<br/>D.E. Prevails</u> |
|------------------------------|----------------------------|-------------------------------------|
| <u>Special Revenue Funds</u> |                            |                                     |
| Fund Balance: June 30, 1989  | \$696,710                  | \$(271,348)                         |



# **Independent Auditor's Report & Financial Schedules of the Board of Regents**

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# Summary of Independent Auditor's Report

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## Summary of Independent Auditor's Report (Board)

The auditor's opinion issued on the financial schedules contained in this report is intended to convey to the reader the degree of reliance that can be placed on the amounts presented. The reader may rely on the fairness of the amounts on the schedules presented on pages 25 through 30 when analyzing the financial activity of the Board of Regents.



## Office of the Legislative Auditor

STATE CAPITOL  
HELENA, MONTANA 59620  
406/444-3122



LEGISLATIVE AUDITOR:  
SCOTT A. SEACAT

LEGAL COUNSEL:  
JOHN W. NORTHEY

## DEPUTY LEGISLATIVE AUDITORS:

MARY BRYSON  
Operations and EDP Audit

JAMES GILLET  
Financial-Compliance Audit

JIM PELLEGRINI  
Performance Audit

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee  
of the Montana State Legislature:

We have audited the financial schedules of the Board of Regents of Higher Education for each of the two fiscal years ended June 30, 1988 and 1989 as shown on pages 25 through 30. These financial schedules are the responsibility of the board's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1 to the financial schedules, the board's financial schedules are prepared in accordance with state accounting policy and are not intended to be a presentation in conformity with generally accepted accounting principles.

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances of the Board of Regents of Higher Education for each of the two fiscal years ended June 30, 1988 and 1989 in conformity with the basis of accounting described in Note 1.

Respectfully submitted,

A handwritten signature in cursive script that reads "James Gillett".

James Gillett, CPA  
Deputy Legislative Auditor

November 9, 1989



BOARD OF REGENTS OF HIGHER EDUCATION  
SCHEDULE OF CHANGES IN FUND BALANCES  
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1989

|  | <u>General Fund</u> | <u>Special<br/>Revenue<br/>Funds</u> |
|--|---------------------|--------------------------------------|
| FUND BALANCE: July 1, 1987                   | \$ <u>-0-</u>       | \$ <u>1,039,455</u>                  |
| ADDITIONS                                    |                     |                                      |
| <u>Fiscal Year 1987-88</u>                   |                     |                                      |
| Support From State of Montana <sup>1</sup>   | 195,944             |                                      |
| Budgeted Revenue & Transfers In <sup>2</sup> |                     | 1,143,390                            |
| Direct Entries to Fund Balance <sup>3</sup>  |                     | 792,778                              |
| <u>Fiscal Year 1988-89</u>                   |                     |                                      |
| Support From State of Montana <sup>1</sup>   | 32,964              |                                      |
| Budgeted Revenue & Transfers In <sup>2</sup> |                     | 312,820                              |
| Prior Year Transfers In Adjustments          |                     | (104,556)                            |
| Direct Entries to Fund Balance <sup>3</sup>  |                     | <u>661,912</u>                       |
| Total Additions                              | <u>228,908</u>      | <u>2,806,344</u>                     |
| REDUCTIONS                                   |                     |                                      |
| <u>Fiscal Year 1987-88</u>                   |                     |                                      |
| Budgeted Expenditures & Transfers Out        | 195,944             | 792,778                              |
| Cash Transfers Out <sup>2</sup>              |                     | 683,164                              |
| <u>Fiscal Year 1988-89</u>                   |                     |                                      |
| Budgeted Expenditures & Transfers Out        | 32,964              | 661,912                              |
| Cash Transfers Out <sup>2</sup>              |                     | <u>254,329</u>                       |
| Total Reductions                             | <u>228,908</u>      | <u>2,392,183</u>                     |
| FUND BALANCE: June 30, 1989                  | \$ <u>-0-</u>       | \$ <u>1,453,616</u>                  |

<sup>1</sup>See footnote 6.

<sup>2</sup>See footnote 5.

<sup>3</sup>See footnote 4.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 29 and 30.

BOARD OF REGENTS OF HIGHER EDUCATION  
SCHEDULE OF BUDGETED REVENUE & TRANSFERS IN - ESTIMATE & ACTUAL  
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1989

Other  
Financing  
Sources

Fiscal Year 1988-89

SPECIAL REVENUE FUND

|                                      |                           |
|--------------------------------------|---------------------------|
| Estimated Revenue                    | \$ 1,737,690 <sup>1</sup> |
| Actual Revenue                       | <u>312,820</u>            |
| Collections Over<br>(Under) Estimate | \$ <u>(1,424,870)</u>     |

Fiscal Year 1987-88

SPECIAL REVENUE FUND

|                                      |                           |
|--------------------------------------|---------------------------|
| Estimated Revenue                    | \$ 2,137,854 <sup>1</sup> |
| Actual Revenue                       | <u>1,143,390</u>          |
| Collections Over<br>(Under) Estimate | \$ <u>(994,464)</u>       |

<sup>1</sup>See footnote 4.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 29 and 30.

BOARD OF REGENTS OF HIGHER EDUCATION  
SCHEDULE OF BUDGETED PROGRAM EXPENDITURES AND TRANSFERS OUT  
BY OBJECT AND FUND - BUDGET AND ACTUAL  
FOR THE FISCAL YEAR ENDED JUNE 30, 1989

|                            | <u>Vo-Tech<br/>Bond<br/>Payments</u> | <u>Administration</u> | <u>Total</u>      |
|----------------------------|--------------------------------------|-----------------------|-------------------|
| PERSONAL SERVICES          |                                      |                       |                   |
| Other Compensation         |                                      | \$ <u>12,500</u>      | \$ <u>12,500</u>  |
| Total                      |                                      | <u>12,500</u>         | <u>12,500</u>     |
| OPERATING EXPENSES         |                                      |                       |                   |
| Contracted Services        |                                      | 151                   | 151               |
| Supplies & Materials       |                                      | 77                    | 77                |
| Communications             |                                      | 1,171                 | 1,171             |
| Travel                     |                                      | 18,031                | 18,031            |
| Other Expenses             |                                      | <u>1,034</u>          | <u>1,034</u>      |
| Total                      |                                      | <u>20,464</u>         | <u>20,464</u>     |
| DEBT SERVICE               |                                      |                       |                   |
| Leases                     | \$ <u>661,912</u>                    |                       | <u>661,912</u>    |
| Total                      | <u>661,912</u>                       |                       | <u>661,912</u>    |
| TOTAL PROGRAM EXPENDITURES | \$ <u>661,912</u>                    | \$ <u>32,964</u>      | \$ <u>694,876</u> |
| GENERAL FUND               |                                      |                       |                   |
| Budgeted                   |                                      | \$33,008              | \$ 33,008         |
| Actual                     |                                      | <u>32,964</u>         | <u>32,964</u>     |
| Unspent Budget Authority   |                                      | \$ <u>44</u>          | \$ <u>44</u>      |
| SPECIAL REVENUE FUND       |                                      |                       |                   |
| Budgeted                   | \$661,912                            |                       | \$661,912         |
| Actual                     | <u>661,912</u>                       |                       | <u>661,912</u>    |
| Unspent Budget Authority   | \$ <u>-0-</u>                        |                       | \$ <u>-0-</u>     |

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 29 and 30.

BOARD OF REGENTS OF HIGHER EDUCATION  
SCHEDULE OF BUDGETED PROGRAM EXPENDITURES AND TRANSFERS OUT  
BY OBJECT AND FUND - BUDGET AND ACTUAL  
FOR THE FISCAL YEAR ENDED JUNE 30, 1988

|                             | Vo-Tech<br>Bond<br><u>Payments</u> | <u>Administration</u> | <u>Total</u>      |
|-----------------------------|------------------------------------|-----------------------|-------------------|
| PERSONAL SERVICES           |                                    |                       |                   |
| Other Compensation          |                                    | \$ 13,400             | \$ 13,400         |
| Total                       |                                    | <u>13,400</u>         | <u>13,400</u>     |
| OPERATING EXPENSES          |                                    |                       |                   |
| Contracted Services         |                                    | 241                   | 241               |
| Supplies & Materials        |                                    | 163                   | 163               |
| Communications              |                                    | 724                   | 724               |
| Travel                      |                                    | 17,643                | 17,643            |
| Rent                        |                                    | 16                    | 16                |
| Other Expenses              |                                    | <u>757</u>            | <u>757</u>        |
| Total                       |                                    | <u>19,544</u>         | <u>19,544</u>     |
| TRANSFERS                   |                                    |                       |                   |
| Accounting Entity Transfers |                                    | <u>163,000</u>        | <u>163,000</u>    |
| Total                       |                                    | <u>163,000</u>        | <u>163,000</u>    |
| DEBT SERVICE                |                                    |                       |                   |
| Leases                      | \$ 792,778                         |                       | <u>792,778</u>    |
| Total                       | <u>792,778</u>                     |                       | <u>792,778</u>    |
| TOTAL PROGRAM EXPENDITURES  | \$ <u>792,778</u>                  | \$ <u>195,944</u>     | \$ <u>988,722</u> |
| GENERAL FUND                |                                    |                       |                   |
| Budgeted                    |                                    | \$195,951             | \$ 195,951        |
| Actual                      |                                    | <u>195,944</u>        | <u>195,944</u>    |
| Unspent Budget Authority    |                                    | \$ <u>7</u>           | \$ <u>7</u>       |
| SPECIAL REVENUE FUND        |                                    |                       |                   |
| Budgeted                    | \$1,454,690                        |                       | \$1,454,690       |
| Actual                      | <u>792,778</u>                     |                       | <u>792,778</u>    |
| Unspent Budget Authority    | \$ <u>661,912</u>                  |                       | \$ <u>661,912</u> |

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 29 and 30.

BOARD OF REGENTS OF HIGHER EDUCATION  
NOTES TO THE FINANCIAL SCHEDULES  
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1989

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

The board uses the modified accrual basis of accounting which is described in the Montana Operations Manual. In applying the modified accrual basis, revenues are recorded when they are received in cash, unless susceptible to accrual. Revenues susceptible to accrual are recorded as receivables when they are measurable and available to pay current period liabilities. Intergovernmental revenues received as reimbursements are recognized based upon the expenditures recorded. Intergovernmental revenues received but not earned are recorded as deferred revenues or liabilities to the respective governments.

Under the modified accrual basis of accounting, expenditures are recorded for valid obligations. A valid obligation exists when the related liability is incurred. The following items are also considered valid obligations under state accounting policy.

- If the appropriation provided funds to complete a given project, the entire amount of a service contract may be accrued even though the services are rendered in a fiscal year subsequent to the fiscal year in which the expenditure is accrued.
- Goods ordered, but not received as of the fiscal year-end, may be accrued if the purchase order was issued prior to fiscal year-end.

B. Basis of Presentation

The financial schedules were prepared from the Statewide Budgeting and Accounting System (SBAS) without adjustments. Accounts are organized on the basis of funds according to state law. The following fund types are used by the board:

General - to account for all financial resources except those required to be accounted for in another fund. These are funds appropriated for general operations of the board.

Special Revenue - to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. Legislative appropriations are required to spend from this fund type. This includes coal tax funds for the operations of the WICHIE and WAMI Student Assistance programs and bond payments on three vocational-technical centers.



2. GENERAL FUND BALANCE

The General Fund is a statewide fund. Agencies do not have a separate General Fund since their only authority is to pay obligations from the statewide General Fund within their appropriation limits. Thus, on an agency schedule, the beginning and ending fund balance will always be zero for the General Fund.

3. VOCATIONAL-TECHNICAL CENTERS

The 50th Legislative Session transferred the governance of the vocational-technical centers from the Office of Public Instruction (OPI) to the Board of Regents. The board and CHE had general administrative and supervisory control over the vocational-technical centers beginning in fiscal year 1987-88.

4. DIRECT ENTRIES TO FUND BALANCE

The direct entries to fund balance represent residual equity transfers from the Educational Trust Fund Account funded by section 15-35-108(3), MCA. The legislature appropriated the funds to the board under House Bill 39, Laws of 1987, to operate the vocational-technical centers. A continuing revenue estimate of \$1,454,690 was established in fiscal year 1987-88 relating to this activity.

5. TRANSFERS IN AND CASH TRANSFERS OUT

In accordance with section 90-6-211, MCA, the Transfers In from the Department of Commerce represent a portion of the income from the investment of the education trust fund. The money is used to fund the Washington, Alaska, Montana, Idaho (WAMI) Cooperative Medical program and the Western Interstate Commission for Higher Education (WICHE) program. The 1987 Legislature authorized permanent transfers from the Education Trust Fund to provide funding for the state's share of the School Equalization Program and to provide funding for higher education which reduced the amount of investment income transferred in between the two fiscal years.

6. SUPPORT FROM STATE OF MONTANA

House Bill 787, Laws of 1987, appropriated \$163,000 of state general fund to the board for the extension by satellite of the University of Montana Master of Business Administration program to be offered in cooperation with programs at Eastern Montana College.









COMMISSIONER OF HIGHER EDUCATION

# THE MONTANA UNIVERSITY SYSTEM

33 SOUTH LAST CHANCE GULCH  
HELENA, MONTANA 59620-2602

(406) 444-6570

RECEIVED

JAN 30 1990

[Handwritten signature]

January 30, 1990

Mr. Scott Seacat  
Office of the Legislative Auditor  
State Capital  
Helena, MT 59620

Dear Mr. Seacat:

This letter is in response to the audit of the Office of the Commissioner of Higher Education and the Board of Regents for the two fiscal years ending June 30, 1989.

With regard to your specific recommendations, I submit the enclosed responses and comments.

Sincerely,

A handwritten signature in cursive script, appearing to read "John".

John H. Noble, Jr.  
Deputy Commissioner for  
Management and Fiscal Affairs

JHN:dkh

Enclosure

## RECOMMENDATION #1

We recommend CHE:

- A. Establish a system to monitor Carl D. Perkins subrecipients for compliance with federal audit requirements.
- B. Establish procedures to ensure deficiencies noted during its program reviews are corrected.

### AGENCY RESPONSE:

Concur.

Currently, the Commissioner's Office does receive copies of the annual audit reports of each of the University System units, Vocational Technical Centers and Community Colleges. Additionally, we also contract with the State Department of Labor and Industry to have annual audits performed for the Community Based Organizations. These audits are reviewed by CHE's fiscal staff and any instances of non-compliance are pursued.

The staff of CHE is currently developing policy, in conjunction with OPI, to assure ourselves of compliance with federal requirements.

- 1. Beginning with Project Year 1992, the annual application from subrecipients will include assurances that they will obtain an audit in accordance with federal audit requirements and will provide a copy of this audit to CHE or OPI.
- 2. Beginning with Project Year 1990, the close-out process will include a check off indicating the receipt and review of audit reports.
- 3. Beginning with Project Year 1990, program reviews which indicate necessary corrective action will automatically be reviewed the following year.

Additionally, CHE will request that subrecipients who received over \$25,000 in funds during Project Year 1989 furnish CHE or OPI with a copy of their audited financial report if they have not already done so.

## RECOMMENDATION #2

We recommend the Board change its policy on nonresident fee waivers to comply with State Law.

### AGENCY RESPONSE:

Do not concur.

### RESPONSE TO RECOMMENDATION #2:

There is a serious question as to whether the 2% limitation on waivers is valid. The Regents for years, even before the 1972 constitution, have been giving "High School Honor Scholarships," consisting of a tuition waiver, to the top college-attending senior in each Montana high school. There has never been any statutory authorization for this fee waiver but no one has ever questioned the Regents' right to grant it. The audit report asserts that Regents policy must be exactly parallel to statute because a section of statute says the Regents have the authority to adopt rules "subject to the laws of the state." 20-25-301 MCA. This language pre-dates the 1972 constitution and parallels the restrictive language of the education section of the 1889 constitution. In 1972 the Con-Con delegates, with much discussion on this precise issue, rejected a specific amendment to keep the 1889 language that stated that the Regents' "powers and duties shall be prescribed and regulated by law." See 1889 Const., Art. XI, Sec. 11 and Con-Con Proceedings, pp. 2129, 2130. Also, even if one accepted that a statutory restriction on waivers is valid it would seem to create a conflict with the Regents specific statutory authority to "prescribe tuition rates . . . for students in institutions under their jurisdiction." The statutory authority to prescribe rates would seem to also convey the authority to determine "who doesn't pay."

The Regents' policy on nonresident fee waivers has been in existence for several years and was last updated in June, 1986.

The policy speaks to nonresident fee waivers in three categories:

- 1) Undergraduate waivers
- 2) Graduate waivers
- 3) Athletic fee waivers

The policies state:

4(b) Undergraduate Out-of-state Fees. Undergraduate out-of-state fees, exclusive of building fees, may be waived for under-graduate students, not to exceed 2% of a unit's total fall quarter FTE for the preceding academic year.

4(c) Graduate Incidental, Registration and Out-of-state Fees. Incidental, registration and out-of-state fees (where applicable), exclusive of building fees, may be waived for graduate students; however,

- 1 The number of waivers shall not exceed 4% of the total fall quarter FTE of the preceding academic year;
- 2 Waivers of out-of-state fees under this section shall not exceed 2% of the total fall quarter FTE of the preceding academic year.

Waivers authorized under 4(a), 4(b) and 4(c) may be given in whole or in part to any number of students so long as the total dollar value does not exceed the dollar equivalent of the maximum authorized waivers. The dollar value of waivable fees shall be based upon the fees for a normal credit load (12-18 credits).

Athletic Fee Waiver. Registration, incidental, and out-of-state fees (where applicable), exclusive of building fees, may be waived for certain athletes. The number of full athletic fee waivers shall not exceed the total number of Full Grants Equivalent authorized by the National Collegiate Athletic Association, National Association of Intercollegiate Athletics, Association for Intercollegiate Athletics for Women or appropriate affiliated conferences for officially sanctioned or recognized intercollegiate sports.

A unit may elect to award partial athletic fee waivers. The total funds awarded in partial athletic fee waivers shall not exceed the dollar value of the allowable partial fee waiver equivalent (PFWE), defined as the number of Full Grants Equivalent (FGE) minus the number of full fee waivers granted. The dollar value of the PFWE is computed as follows: The dollar value of the registration and incidental fees is multiplied by PFWE. To this is added the dollar value of the out-of-state fee times PFWE times the ratio of the number of out-of-state students receiving partial athletic fee waivers.

The waivers permitted by this section are in addition to any other waivers authorized by this policy and shall not be included in computing limitations on the maximum allowable value of waivers of incidental and registration fees for undergraduates or in computing allowable waivers of out-of-state fees for undergraduates.

TABLE I  
TOTAL NONRESIDENT FEE WAIVERS  
MONTANA UNIVERSITY SYSTEM

| <u>ELIGIBLE WAIVERS</u> | <u>FY 89<br/>REGENT<br/>AUTHORIZED</u>         | <u>FY 89<br/>ACTUALLY<br/>GRANTED</u> |
|-------------------------|--|---------------------------------------|
| Undergraduate Waivers   | 469  | 58                                    |
| Graduate Waivers        | 469  | 214                                   |
| Athletic                | <u>Varies According To<br/>Conference Regs</u> | <u>249</u>                            |
| TOTAL AUTHORIZED        | <u>938 + Athletic</u>                          | <u>521</u>                            |
| 2% of Enrollment        |  | <u>469</u>                            |

The number of non-resident fee waivers budgeted for FY 90 is 525. The two percent calculation would provide for 479 nonresident waivers.

I have attached the Regent approved budget for fee waivers in the University System. The Regent schedule breaks down the waivers into discretionary and mandatory. The Regents have adopted, by policy, these waivers that have been provided by the Legislature.

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**MONTANA UNIVERSITY SYSTEM**  
**COMPARATIVE SUMMARY OF SCHOLARSHIPS AND FELLOWSHIPS BY CATEGORY**  
**FISCAL YEAR 1989-90**

| Category                               | FISCAL YEAR 1988-89   |                           |                      | FISCAL YEAR 1989-90   |                           |                      |
|--|-----------------------|---------------------------|----------------------|-----------------------|---------------------------|----------------------|
|  | FTE<br>Waivers        | Dollar<br>Amount          | Percent              | FTE<br>Waivers        | Dollar<br>Amount          | Percent              |
| In-State 6%                            | 291.4                 | \$ 243,806                | 8.1%                 | 303.9                 | \$ 310,571                | 9.3%                 |
| Out-of-State:                          |                       |                           |                      |                       |                           |                      |
| Athletic                               |                       |                           |                      |                       |                           |                      |
| In-State Portion                       | 242.3                 | 202,722                   | 6.7%                 | 209.7                 | 213,916                   | 6.4%                 |
| Out-of-State Portion                   | 249.6                 | 417,797                   | 13.9%                | 223.4                 | 377,875                   | 11.3%                |
| Graduate                               |                       |                           |                      |                       |                           |                      |
| In-State Portion                       | 211.4                 | 176,914                   | 5.9%                 | 178.0                 | 180,200                   | 5.4%                 |
| Out-of-State Portion                   | 214.3                 | 372,719                   | 12.4%                | 273.1                 | 359,423                   | 10.8%                |
| Undergraduate                          |                       |                           |                      |                       |                           |                      |
| In-State Portion                       | 41.9                  | 35,074                    | 1.2%                 | 14.0                  | 15,187                    | 0.5%                 |
| Out-of-State Portion                   | 58.7                  | 96,102                    | 3.2%                 | 28.6                  | 54,832                    | 1.6%                 |
| WICHE                                  |                       |                           |                      |                       |                           |                      |
| In-State Portion                       | 0.0                   | 0                         | 0.0%                 | 0.0                   | 0                         | 0.0%                 |
| Out-of-State Portion                   | 14.9                  | 25,578                    | 0.8%                 | 10.1                  | 19,661                    | 0.6%                 |
| Faculty and Staff                      | 107.6                 | 89,440                    | 3.0%                 | 103.7                 | 105,414                   | 3.2%                 |
| Athletic In-State Discr.               | 432.4                 | 290,160                   | 9.6%                 | 414.7                 | 335,228                   | 10.1%                |
| Graduate Students                      |                       |                           |                      |                       |                           |                      |
| (In-State)                             | <u>344.6</u>          | <u>184,549</u>            | <u>6.1%</u>          | <u>287.3</u>          | <u>216,153</u>            | <u>6.5%</u>          |
| <b>TOTAL DISCRETIONARY<br/>WAIVERS</b> | <b>2,209.1</b>        | <b>\$2,134,861</b>        | <b>70.8%</b>         | <b>2,046.5</b>        | <b>\$2,188,460</b>        | <b>65.7%</b>         |
| Indian Students                        | 438.8                 | 367,043                   | 12.2%                | 468.9                 | 478,245                   | 14.4%                |
| Veterans                               | 162.9                 | 135,922                   | 4.5%                 | 171.1                 | 174,491                   | 5.2%                 |
| War Orphans                            | 2.0                   | 1,740                     | 0.1%                 | 2.0                   | 2,040                     | 0.1%                 |
| Prisoners of War                       | 1.0                   | 837                       | 0.0%                 | 1.0                   | 1,020                     | 0.0%                 |
| Senior Citizens                        | 19.7                  | 16,677                    | 0.6%                 | 21.1                  | 22,532                    | 0.7%                 |
| Custodial Students                     | 1.0                   | 837                       | 0.0%                 | 1.0                   | 1,020                     | 0.0%                 |
| Community Colleges                     | 5.3                   | 4,398                     | 0.1%                 | 13.0                  | 13,260                    | 0.4%                 |
| High School Honor                      | 411.9                 | 345,139                   | 11.5%                | 434.0                 | 442,684                   | 13.3%                |
| National Merit                         | <u>8.0</u>            | <u>6,799</u>              | <u>0.2%</u>          | <u>8.0</u>            | <u>8,160</u>              | <u>0.2%</u>          |
| <b>TOTAL MANDATORY<br/>WAIVERS</b>     | <b>1,050.6</b>        | <b>\$ 879,392</b>         | <b>29.2%</b>         | <b>1,120.1</b>        | <b>\$1,143,452</b>        | <b>34.3%</b>         |
| <b>TOTAL ALL WAIVERS</b>               | <b><u>3,259.7</u></b> | <b><u>\$3,014,253</u></b> | <b><u>100.0%</u></b> | <b><u>3,166.6</u></b> | <b><u>\$3,331,912</u></b> | <b><u>100.0%</u></b> |





